

A man with dark hair and a light beard, wearing a light blue button-down shirt and a high-visibility yellow safety vest, stands in a warehouse. He is holding a white clipboard and looking slightly to his right. The background shows wooden shelves filled with cardboard boxes.

FSB East of England Quarterly Small Business Index

Q2 2021



Foreword

Our last quarterly report, published in late-Spring, found business confidence in the East of England surging to levels not seen since before the EU referendum as lockdown restrictions were eased and some sense of normality returned. It was perhaps inevitable that such a high level of optimism would not be sustained. Unforeseeable setbacks, such as the so-called “pingdemic”, have caused major challenges for some of our key sectors, particularly the hospitality and tourism industries.

Business confidence remains in positive territory, but many small firms are now on a long path to recovery that will potentially include paying off the substantial debts they have accrued over the past 18 months or longer.

That unemployment has not to this point increased to anywhere near the levels that were feared last year is a major policy achievement that we all welcome. Instead, the concern that now pervades much of our small business community is the availability of skilled staff, with a number of sectors reporting difficulties accessing the talent necessary for them to grow.

This index is a warning that the East of England could find this challenge particularly acute; over a quarter of our small firms say they are looking to increase headcount over the next quarter, and nearly half say that access to appropriately skilled staff will be a barrier to growth during the year ahead.

We know that many local authorities and other organisations are now thinking extensively about their plans for supporting businesses over the coming period. It is vital that recovery plans include continued financial support on an inclusive basis for all viable businesses – not just specific sectors or those deemed ‘high growth’. We would also urge against the application of arbitrary criterion – for example a threshold on the number of employees – for access to specific support programmes.

It is particularly important that recovery plans include a wide range of skills and mentoring interventions: helping to increase the number of apprenticeships, giving start-ups the best prospects of success, and supporting those businesses struggling to adapt to the new realities of the digital age.

Linked to this, within the region we must continue to work together in a collaborative way to ensure that as many small firms as possible are aware of and signposted to the fantastic range of support that is available to them. Throughout the pandemic, we have used our networking sessions and other meetings to highlight grants, training and other measures to the local business community, mindful that so many small firms remain disengaged from the support landscape.

Whilst FSB’s policy unit continues to lobby parliamentarians in Westminster, I urge policy-makers in the East of England to read and act on the data in this report, in order to take economic recovery forward for all.

The East of England Small Business Index (EESBI)¹ – which measures confidence amongst businesses – remains positive but has fallen since the last quarter, from 33% in Q1, to 12% in Q2.

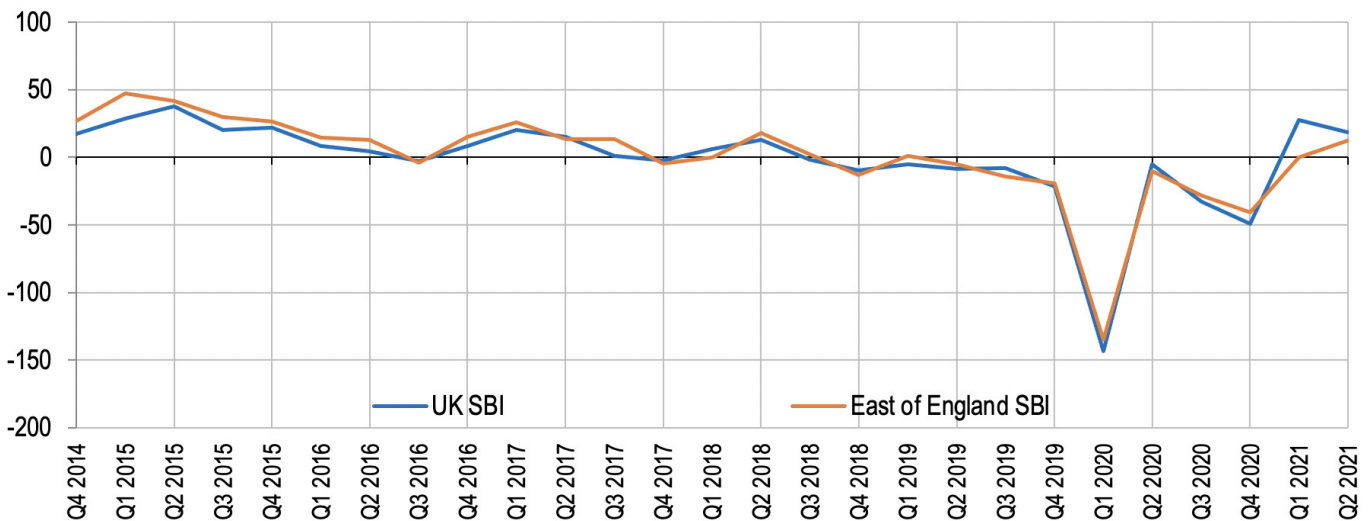
After reaching the highest level of confidence since Q1 2015, confidence has again declined yet still remains positive. However, this is still above the levels from a year ago in Q2 2020 (-10%).

Despite the fall in confidence, it is worth calling out that the metric is measured as ‘confidence in business performance for the next 3 months vs. last 3 months’. The comparative nature of the metric, then, would likely have been affected by the high levels of pessimism at the end of 2020 (-41% in Q4). This would make any improvement in the area give the appearance of particularly high ‘confidence’, suggesting that the scores in Q2 may be a return to ‘normal’.

The level of confidence witnessed amongst East of England small businesses is below the UK average of 19%. Regions with the highest levels of confidence include the East Midlands (50%), South West (29%) and North East (28%).

Confidence in business performance in the East of England remains positive, but falls over the last three months.

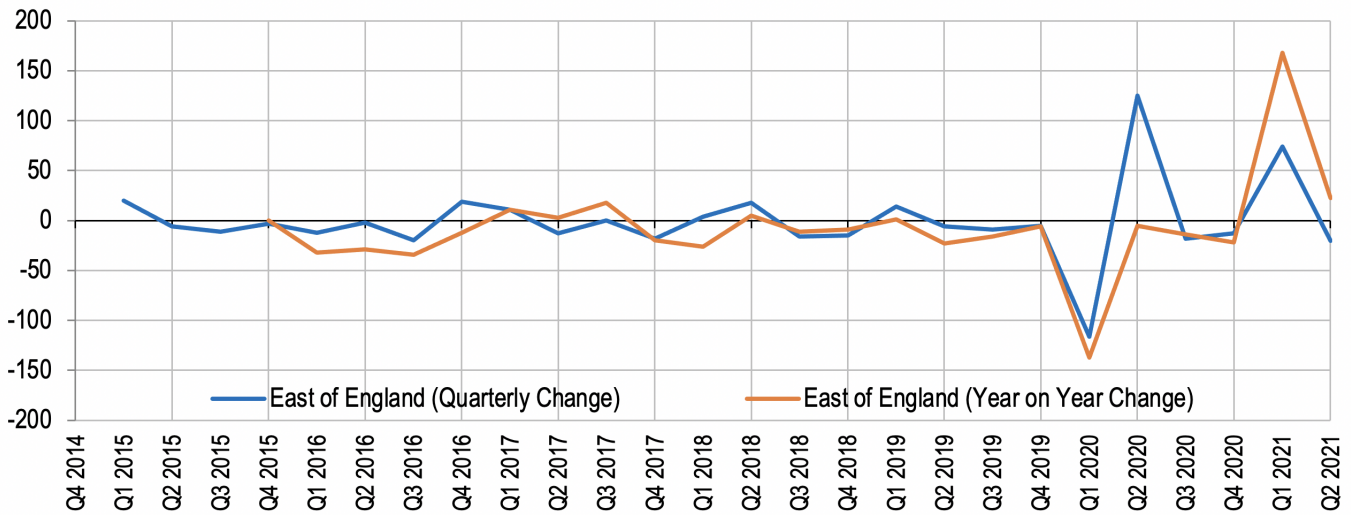
Fig.1 FSB Small Business Index: regional variation in small business prospects/confidence over coming three months



¹ The East of England Small Business Index is a weighted index of the responses to the question: ‘Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?’ The share of firms reporting ‘much improved’ are given the following weightings: +2, slightly improved +1, approximately the same 0, slightly worse -1 and much worse -2; the Small Business Index is derived from the sum of these factors.

Despite a quarterly decline in confidence across the East of England, year-on-year positivity about performance remains comparatively high.

Fig.2 FSB East of England Small Business Index: small business confidence levels



Business Conditions

Overall sentiment towards gross profit from businesses in the East of England remains negative in Q2, however the future looks more positive for profits.

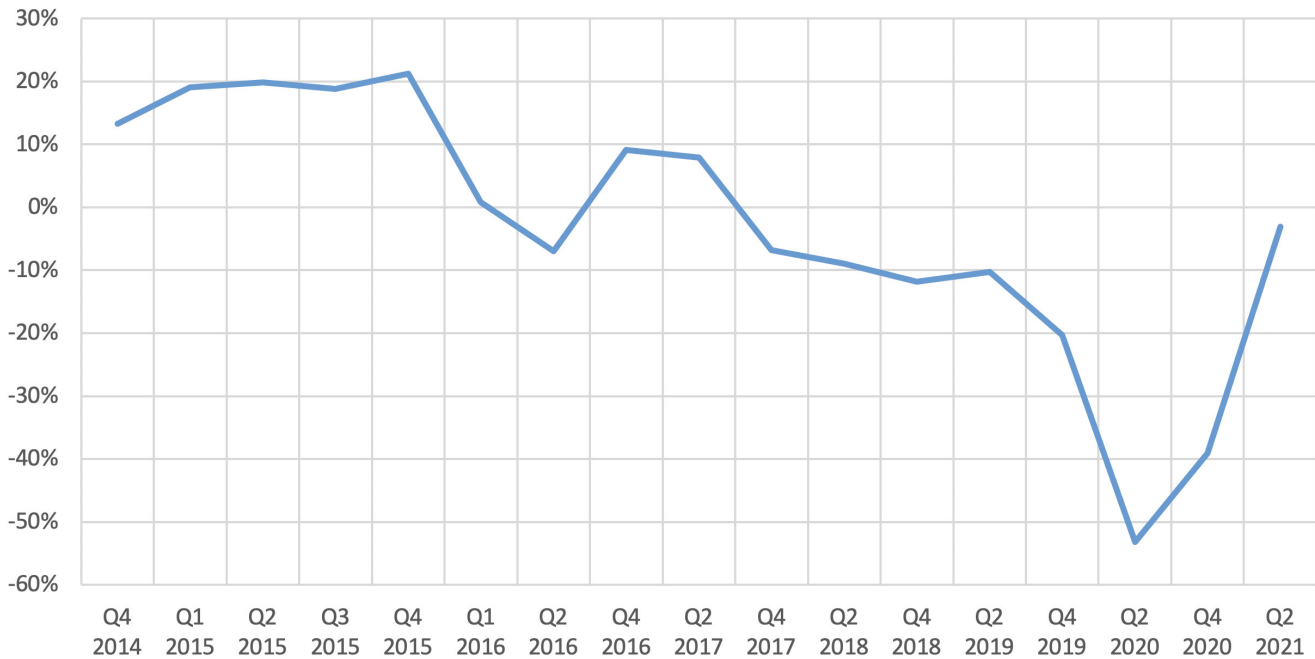
In Q2, 41% of small businesses in the East of England reported a decrease in gross profit over the last 3 months, which shows a decline since Q4, where the score was 63%. Some resilience was still shown by East of England businesses however, with a just over a third (38%) reporting an increase in profit levels over the period.

With a net balance figure of -3% for Q2, profits from East of England small businesses are below the national average (-1%). The highest performing region for Q2 was the East Midlands (14%), with the East of England only outperforming London (-11%) and the West Midlands (-14%).

However, the outlook for future profit looks more positive, with an overall net figure of 12% for the East of England. This is slightly above the UK average (9%), with the only area of the country predicting negative performance over the next three months being London (-1%).

East of England's small businesses show a rise in gross profit from Q4 2020.

Fig.3 FSB Small Business Index: net balance of small firms in East of England reporting gross profit (gross profit question only asking in Q2 and Q4 phases of SBI – question is asked on a rotational basis)



Employment and Wage growth

The East of England sees net positive employment numbers for the first time since Q4 2019, with this growth predicted to continue into the next quarter above the UK

The employment picture amongst FSB members over the preceding three months showed that 13% had decreased staff numbers, whilst 15% had increased employment levels. Most small businesses' staffing levels have been unaffected in the East of England, with 59% reporting that levels have 'stayed the same', which is fairly consistent with the previous quarter.

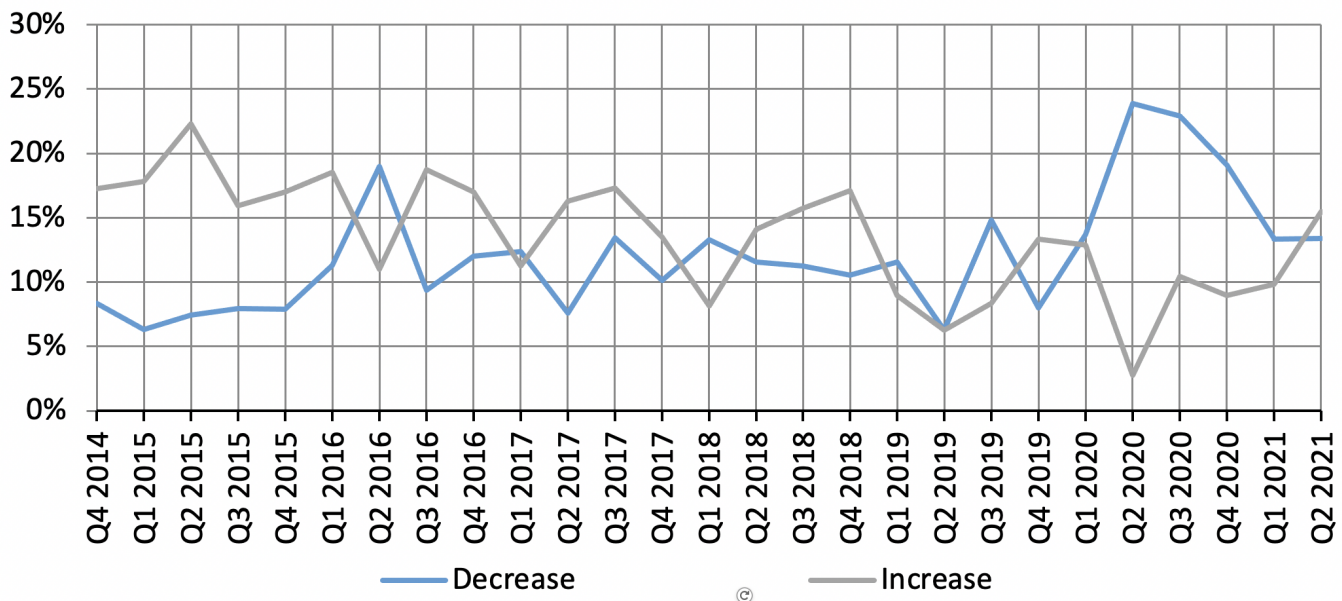
For the next quarter though, the intention is for 27% of businesses to increase headcount and 7% to decrease staff numbers. This therefore shows signs of improvement for the East of England, and with a net score of 20%, the region is above the UK average of 14%.

Wage Growth

In the East of England, 53% of small businesses increased the average salary over the previous 12 months. Just under three-quarters (71%) expect to see salary increases over the next 12 months, with 49% reporting the likely increase to be 2% or more. The proportion of those expecting a wage increase in Q2 (71%) is higher than in Q1 (54%). This figure is also a slight improvement from 12 months ago when in Q2 2020, 51% of small businesses expected to increase the average salary in the region.

Staff employment levels turn net positive for the first time since Q4 2019.

Fig.4 FSB Small Business Index: change in people employed in East of England over last 3 months



Growth and Investment aspirations

In Q2, 55% of small businesses in the East of England said that their aspirations in the next 12 months were to grow rapidly (increase turnover/sales by over 20%) or moderately (up to 20%). Additionally, compared with this time last year, small businesses are slightly less likely to report an aspiration to downsize their business (15%, vs. 21% at Q2 2020).

The investment intentions for East of England businesses has moved to a net figure of 14%, which is a decrease vs. Q1, where the score was 18%.

Net investment intention for the East of England is in line with the UK average of 13%.

The anticipated net change of the North West (22%), London (19%) and the North East (15%) are all above the East of England (14%). The East Midlands is the region which anticipates the lowest improvement, with a net increase of 9% predicted.

In the East of England, the domestic economy (65%) and appropriately skilled staff (45%) are the greatest perceived barriers to growth over the coming twelve months, followed by input costs (37%).


In the East of England, 15% of businesses have said they intend to contract the business in the next twelve months (to downsize, sell or close the business) – this is on par with what was predicted in Q1 (14%).

About FSB

As experts in business, FSB offers members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. Its aim is to help smaller businesses achieve their ambitions. More information is available at www.fsb.org.uk

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